

Despite regulators' protests, White House pressed House panel

By Zachary A. Goldfarb

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A House committee, under pressure from the White House, voted Tuesday to exempt small public companies from part of a federal law designed to prevent financial fraud, despite objections from regulators and key Democratic leaders.

White House Chief of Staff Rahm Emanuel lobbied members of the House Financial Services Committee to exempt small public companies from a provision in the landmark Sarbanes-Oxley bill that was passed in 2002 in response to the Enron and WorldCom corporate accounting scandals, according to a lawmaker and several other sources familiar with the effort.

Emanuel's position was at odds with that of committee chairman Barney Frank (D-Mass.), who opposed the exemption and called for another vote today on the matter.

The amendment passed by a voice vote Tuesday would cover public companies worth less than \$75 million, up to half of all public companies. It is part of an investor bill the committee is working on to reform financial regulation.

The amendment would exempt those companies from having to comply with a provision of the Sarbanes-Oxley law that requires that companies hire auditors to examine their internal systems to ensure compliance with accounting reporting rules.

The costs of compliance "are very burdensome. It really cuts into their ability to grow and hire new people," said Rep. John Adler (D-N.J.), a sponsor of the amendment.

Adler said he spoke with Emanuel several times in the past few days. "He and many members of Congress, the past two sessions, have expressed real concerns about the financial burden of" the Sarbanes-Oxley provision.

Rep. Scott Garrett (R-N.J.), a co-sponsor of the amendment, said he was surprised that Emanuel got behind the proposal. "Obviously Rahm Emanuel must have had some contacts with the business community," Garrett said.

White House spokeswoman Jen Psaki said the administration is focused on "addressing the threats posed to investors and consumers by large, interconnected companies rather than placing an undue burden on small businesses."

An Obama administration official said Emanuel's support was part of the administration's overall efforts to provide help to small businesses nationwide.

Securities and Exchange Commission Chairman Mary L. Schapiro wrote a letter to the committee on Oct. 16 opposing an exemption, saying the law "leads management to better understand financial reporting risks, put in place appropriate controls to address financial reporting risks, and addressing internal control deficiencies in a more timely fashion."

Former SEC chairman Arthur Levitt was sharply critical of any efforts to roll back Sarbanes-Oxley.

"Any member of Congress that supports the weakening of Sarbanes-Oxley is by definition anti-investor and will bear that responsibility for their legislative careers," Levitt said.

As it happens, the provisions of the law that require small companies to comply with audit requirements have never been implemented. The SEC has postponed the requirement multiple times to conduct studies of the costs associated with the provision.

However, several weeks ago, the agency announced that, starting next year, small firms would have to pay auditors to review their controls and that there would be no more delays.